



The Pakistan Credit Rating Agency Limited

KOHINOOR TEXTILE MILLS LIMITED

	NEW [Nov-16]	PREVIOUS [Nov-15]
Entity		
Long Term	A+	A
Short Term	A1	A1
Outlook	Stable	Stable

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NOVEMBER 2016

Profile & Ownership

- KTML - a Kohinoor Maple Leaf Group (KMLG) company, commenced operations in 1958. The company is engaged in manufacturing of yarn, fabric and home textile products
- The management control lies with Saigol family who, along with associates, holds majority stake in KTML
- KMLG is one of the oldest business groups of Pakistan having interests mainly in textile, cement, and trading sectors

Governance & Management

- KTML has eight member board of directors. Five board members belong to Saigol family, out of which three are in executive roles including the CEO, two are group affiliates, and one member is independent director
- CEO - Mr. Taufique Sayeed Saigol - associated with KTML since 1977, oversees the company affairs through an experienced management

Operational Risk

- Adequate operational infrastructure; mainly Chinese technology
- Oracle based ERP solution; comprehensive MIS reporting
- Captive power generation (capacity: ~34MW) to meet energy requirements

Business Risk

- Sales mix dominated by Processing & Home textile (P&HT) segment (~42%), followed by spinning (~37%), and weaving (~21%) segments; balanced mix of exports and local sales
- Top ten customer revenue concentration in both local and export market is high; thus portraying concentration risk
- During FY16, revenue witnessed meager increase on YoY. Cost of sales benefiting from relatively lower power costs decreased. Resultantly, gross (FY16: ~19%, FY15: ~17%) and operating (FY16: ~13%, FY15: ~11%) margins increased on YoY basis.
- Dividend income of PKR 834mln (up ~166% YoY) further augmented the bottom line. The benchmark lending rate declined. Resultantly, despite higher debt level, finance cost declined
- Profit before taxation increased to PKR 2,628mln (up ~9%) for FY16
- During 1QFY17, revenues increased by ~5% on YoY basis. KTML posted profit before taxation of PKR 520mln, rising by ~36% on YoY basis
- Investments portfolio constitutes ~50% of equity base. Book comprises strategic investment (~60%) followed by investment properties (~27%) and trading portfolio (~13%)
- KTML intends to hold its business profile. Regular Balancing, Modernization and Replacement (BMR) is likely to maintain the performance going forward

Financial Risk

- Working capital requirements, a function of its receivables and inventory, are met through a mix of internal generation and short term borrowings
- Net cash cycle was largely maintained and remained lower than peers, mainly benefiting from better stock management.
- Company has a continued feature of excess STBs when compared with net trade assets; though the quantum has reduced over the years. This poses short-term liquidity risk
- Strong coverages; KTML's recent buildup of dividend inflows provided additional comfort to coverages
- Moderately low leveraged capital structure; expected to remain range bound

RATING RATIONALE

The ratings reflect KTML's established business profile emanating from strong presence in the broader value-chain; enabling the company to manage volatility in textile business. The entity has achieved a sizable revenue base. The company's business strategy to operate in its niche market has helped to maintain healthy margins. Managements plan, albeit slow, to replace and modernize existing machinery should bring efficacies to maintain relative positioning. Lean inventory management system and related efficiencies continued to remain the competitive edge. This has resulted in a strong financial risk profile which is also supported by healthy coverages and capital structure. KTML, besides owning Maple Leaf Cement, has been focusing to strengthen its 66% owned Maple Leaf Capital – a company formed to manage a diversified portfolio of investments – as further equity injection is planned. Recent buildup of dividend stream from these investments has started supporting KTML's profile; sustainability is important to ensure. Besides, the company maintains a trading portfolio of stock market investments. While it provides comfort to liquidity profile of the company, related market risk needs to be managed carefully.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to sustain its business profile. At the same time prudent management of short term liquidity is considered important.



Kohinoor Textile Mills Limited

BALANCE SHEET	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
	1QFY17	Annual	Annual	Annual
Non-Current Assets	7,469	7,498	6,625	5,966
Investments (Incl. associates)	6,834	6,490	6,372	5,771
Equity	5,050	4,706	4,589	3,016
Debt	-	-	-	974
Investment Properties	1,784	1,784	1,783	1,781
Current Assets	5,354	5,168	4,616	4,384
Inventory	2,150	2,204	1,988	1,888
Trade Receivables	1,138	1,040	1,130	903
Others	2,066	1,925	1,499	1,593
Total Assets	19,657	19,156	17,614	16,122
Debt	4,150	4,407	4,070	4,737
Short-term	3,188	3,434	3,597	4,575
Long-term (Incl. Current Maturity of long-term debt)	962	972	473	161
Other shortterm liabilities	1,692	1,372	1,498	1,226
Other Longterm Liabilities	426	418	362	316
Shareholder's Equity	13,388	12,960	11,684	9,843
Total Liabilities & Equity	19,657	19,156	17,614	16,122
INCOME STATEMENT				
Turnover	4,166	16,088	15,863	15,302
Gross Profit	668	3,039	2,730	1,907
Net Other Income	146	901	1,154	837
Financial Charges	(64)	(337)	(491)	(565)
Net Income	428	2,132	2,087	1,170
Cashflow Statement				
Free Cashflow from Operations (FCFO)	436	1,989	1,770	1,206
Net Cash changes in Working Capital	461	(646)	61	(402)
Net Cash from Operating Activities	828	1,824	1,626	253
Net Cash from Investing Activities	(257)	(1,069)	(630)	(253)
Net Cash from Financing Activities	(257)	(640)	(982)	(219)
Ratio Analysis				
Performance				
Turnover Growth	5.5%	1.4%	3.7%	7.4%
Gross Margin	16.0%	18.9%	17.2%	12.5%
Net Margin	10.3%	13.3%	13.2%	7.6%
ROE	13.0%	17.1%	18.7%	12.2%
Coverages				
Interest Coverage (FCFO/Gross Interest)	6.8	5.9	3.6	2.1
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	3.7	3.8	3.0	1.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	3.7	5.4	3.6	1.1
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	0.6	0.6	0.4	0.9
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	58	58	54	54
Capital Structure (Total Debt/Total Debt+Equity)	23.7%	25.4%	25.8%	32.5%



STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p>Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p> <p>High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>Highly speculative. Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.</p>	
CCC CC C	<p>High default risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	<p>Obligations are currently in default.</p>	

<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Kohinoor Textile Mills Limited
 Textile
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
25-Nov-16	A+	A1	Stable	Upgrade
26-Nov-15	A	A1	Stable	Upgrade
28-Jan-15	A-	A2	Stable	Maintain
14-May-14	A-	A2	Stable	Initial

Related Criteria and Research

Rating Methodology
 Sector Research

Corporate Rating Methodology
 Textile Sector Overview - 2016

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[Rating Team Statement](#)

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[Probability of Default \(PD\)](#)

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